TIME WARNER

Memorandum

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Rich Stein
Joan Sumner
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Kevin Tsujihara
Ted Turner
Ed Weiss
Rick Yeager

FROM: John Martin

DATE: January 11, 2000

Attached are some recent analyst reports on Time Warner that I thought you'd find interesting.

TWX

09:52am EST 11-Jan-00 PaineWebber (Dixon, Christopher P. 212-713-2420) TWX AOL
Time Warner: TWX & AOL Set Agenda for New Media Age

Entertainment, Leisure, New Media
Christopher Dixon
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PaineWebber
RESEARCH NOTE

January 11, 2000

Rating: Buy

Time Warner
(TWX-$89.75)(3)
Time Warner: TWX & AOL Set Agenda for New Media Age
KEY POINTS

* Time Warner and America Online (AOL-$71.06) agreed to merge the two companies; the deal is expected to close by year-end. The merger is expected to be accounted for as a purchase, and is subject to shareholder and regulatory approval; however, as there is nearly no overlap in the two companies businesses, we anticipate few regulatory impediments other than customary franchise approvals associated with cable ownership transfers.

* Terms: Time Warner shareholders will receive a fixed ratio of 1.5 shares of the newco AOL Time Warner (ticker to remain AOL) and own an estimated 45% stake in the newco; AOL shareholders will receive one share of the newco AOL Time Warner.

* Estimates: The newco will have an estimated $40 billion in 2001 revenues and $10 million in estimated 2001 EBITDA. Total diluted shares outstanding for the newco goes to an estimated 5 million shares with an estimated ($15) billion in net (debt).

* Valuation: Maintain Buy rating on TWX shares and raising price target from $90 to $170, derived by capitalizing 2000 revenues at 15x revenues (consistent with other major new media Internet companies) and adjusting for ($15) billion in net (debt) and yields 12-month price target of $170.

* Strategy: We believe the two companies in essence fit together extraordinarily well, with each company providing the missing piece of the puzzle that the other lacked to fully leverage the onslaught of the new digital age. Time Warner share holders benefit from the reach and existing Internet infrastructure at AOL which can enable the new company to efficiently leverage all Time Warner entertainment assets; for AOL, the deal alleviates concerns as to how the company would develop a broadband strategy without owning content or having access to cable customers.

* Management: The new company benefits from a seasoned and experienced management team AOL's Steve Case becomes Chairman, with Gerald Levin CEO and Ted Turner Vice Chairman. Richard Parson (Time Warner) and Bob Pittman (AOL) become joint COO's. We believe integration issues will be mitigated by Pittman's long term relationships with contemporaries at Time Warner.

*Key Data		Quarterly Earnings Per Share (fiscal year ends December)					
			1998A	1999E	Prev	2000E	Prev
52-Wk Range	$98-59						
Eq.Mkt.Cap.(MM)	$115,598	1Q	($0.13)	$0.00A			
Sh.Out.(MM)	1,288.0	2Q	0.02	0.12A			

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Float	61%	3Q	(0.03)	0.08A			
Inst.Hldgs.	65.6%	4Q	(0.17)	0.13E	0.19		
Av.Dly.Vol.(K)	2,912	Year	($0.31)	$0.33	$0.40	$0.57	$0.70
Curr. Div./Yield	$0.18/0.2%	FC Cons.:	($0.31)	$0.36		$0.64	
Sec.Grwth.Rate	12%	Revs.(MM):	NA	NA		NA	
12-mo. Tgt Price	$170.00	P/E:	NM	272.0x		157.5x	
12-mo. Ret. Pot'l	89.6%						
Convertible?	No						

Time Warner quarterly estimates are not-pro forma for the merger.

INVESTMENT OPINION

We believe a combined Time Warner and AOL becomes the best-positioned global Media Company to benefit from the rapid assimilation of digital technology in the media world. The new company can leverage content, broadband distribution capability, Internet technology and infrastructure through both companies' expansive reach. In essence the two companies fill the missing links in each of their respective businesses. AOL shareholders receive depth of content and broadband distribution, while Time Warner accelerates its ability to leverage its core brands across the Internet through AOL's Internet infrastructure and technology.

reach

Attesting to the magnitude of this reach, the newco through Time Warner will reach 13 million cable subscribers in 20 million homes passed, HBO's 35 million subscribers, 75 million homes passed through TNT, 1 billion viewers through CNN and 120 million readers from its publishing assets which include People, Sports Illustrated, InStyle and Time; AOL brings the Internet's largest online subscriber base of 22 million.

Importantly, a combined AOL Time Warner can leverage the company's entertainment assets more efficiently across a broader audience base on all distribution platforms. This content includes Warner Bros.' filmed entertainment, Warner Music, New Line, People, Sports Illustrated, InStyle, CNN, CNNfn, HBO, and New Line to name a few. Thus as broadband evolves and becomes a more pervasive element in households, accelerated by Time Warner's RoadRunner, management sees tremendous opportunities in interactive full motion video online. In addition to filmed distribution through broadband, the Warner Music's content and e-commerce opportunities with CDNow, Time Warner's 50% joint venture with Sony, can benefit from a better Internet platform. For the publishing assets, an improved platform through AOL's Internet distribution and leveraging of existing technology and Internet can likely accelerate the development of branded sites such as People, CNNsi and InStyle.

Perhaps most importantly, the deal provides a unique opportunity for the new company to set the agenda and define the business plans associated with streaming audio and video and contextual merchandising. At the same time ongoing efforts by AOL to migrate its services to new pdas and other non-PC information devices, can result in totally new business models. Thus we view today's deal as defining transaction in the world of new media

Operationally, management believes that the company can improve its multiple revenue streams and accelerate cash flows. The company projects pro forma 2001 Revenues of $40 billion and EBITDA of $10 billion.

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MANAGEMENT

The new company will have a seasoned and experience management team, led by AOL's Steve Case who becomes Chairman, with Gerald Levin CEO and Ted Turner Vice Chairman. Richard Parson (President of Time Warner) and Bob Pittman (President of AOL) will become joint COO's. AOL's CFO J. Michael Kelly is expected to become CFO of the new AOL Time Warner. Importantly, Bob Pittman, formerly a Time Warner employee, will likely enable a smooth integration of the two companies.

MERGER TERMS

Terms of the deal call for Time Warner shareholders to receive a fixed exchange ratio of 1.5 shares of the newco and AOL shareholders to receive 1.0 shares of the newco. The deal is anticipated to close by the end of this year, and subject to Hart Scott Rodino and shareholder approval and has already received board approval. Management does not anticipate any antitrust regulatory impediments as the two companies have relatively little overlap in businesses.

VALUATION

We reiterate our Buy rating on TWX, and are increasing our 12-month price target to $170 up from $90, derived by capitalizing estimated 2000 pro forma revenues of $37.6 million at 15x and adjusting for net (debt) of $15 million. This implies a 12-month price target for TWX shareholders of $170. Should the combined company trade at the current 12x multiple accorded AOL shares, a target of $135 per TWX share is implied.

RISKS

Primary risks relate to sustainability of Internet valuation metrics.

Source: PaineWebber estimates

Additional information available upon request.

3. PaineWebber Incorporated has acted in an investment banking capacity for this company.

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08:39am EST 11-Jan-00 Bear Stearns (Katz,R/Vilensky,J 212/272-6857) TWX T CHTR
TWX: TWX/AOL More Ruminations on the Deal (PART 1 OF 2)

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1/11/00

Subject: Mergers/Acquisitions
Industry: Entertainment

BEAR, STEARNS & CO. INC.
EQUITY RESEARCH

Time Warner * (TWX $92 1/4) - Attractive
TWX/AOL More Ruminations on the Deal

(PART 1 OF 2)

Data

Long-Term Growth 13%	Target Price NMF	Shares Out 1,375
Top-Line Growth 9%	EV/EBITDA 23.0 X	Market Cap (MM) $126.9 B

Key Points

*** The Time Warner/AOL merger is likely to jump-start further strategic activity between the traditional and new media sectors.

*** We think there will be speculation about other mergers. With strong content assets available to retain Internet traffic, and the ability to leverage strong consumer brands as well, we think traditional entertainment companies are in good position to realize and retain equity values for shareholders.

*** In our opinion, 58% of the cable industry's homes are now (or will be) in the hands of owners who view cable as a means to an end and not an end in itself (AT&T, Paul Allen, and AOL). As a consequence, we think the remainder of the industry may look for further consolidation to protect its interests. This should help support cable valuations, at least in the near term.

*** Bear Stearns retains its Buy ranking on AOL and its Attractive ranking on Time Warner. The arb spread is an estimated 27% annualized, and we think over time it will close, providing some upside for TWX holders. Furthermore, we do not think AOL's valuation is largely at risk; however, risk-averse traditional entertainment investors may want to take some profits off the table if Internet valuations are deemed too much of a risk.

Val
Risk

*** In lieu of this deal, another merger partner for either Time Warner or AOL is possible, but not considered likely.

	EBITDA Year	EV/ EBITDA
1998	$5,497	
1999	$6,150	NM
2000	$6,982a	23.0 X

(a) All estimates refer to Time Warner only.

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TERMS OF THE TRANSACTION. Time Warner announced that it will merge with America Online to form a new Company, AOL Time Warner. The terms of the deal are as follows:
***Time Warner shareholders will receive 1.5 shares of the new company while AOL shareholders will receive 1 share of the new company. There is no collar on the deal.
***At yesterday's close, Time Warner shareholders will own 43% of the combined entity while AOL shareholders will own 57%.
***The purchase will be a tax-free transaction for shareholders, at a fixed exchange ratio and is anticipated to close by the end of calendar 2000.

WHAT IS GOING ON? We believe Internet economics are based on the following: Aggregation (based on marketing and distribution) plus Retention (based on content) equals Monetization. From AOL's point of view:

***AOL has the marketing and broad distribution through narrowband, resulting in perhaps the strongest brand on the Internet. However, with distribution moving from narrowband to broadband, Time Warner represents an acceleration of obtaining that broadband distribution through its own cable systems, potentially Road Runner, and the influence they will have in Washington and the cable industry as a major player.
***AOL's Retention is immeasurably helped by having TWX's content, something AOL lacks.
***Monetization will come about through the synergies of cross-promotion and marketing, leveraging the TWX brands off the AOL name, and vice-versa.

From TWX's point of view:

***AOL has the Internet brand TWX has yet to build. TWX managed to "acquire" that brand while garnering a 71% premium for its shareholders and retaining 50% of the board seats and the CEO position.

val

The issue for TWX shareholders is AOL's valuation. Bear Stearns retains our BUY recommendation on AOL, and believes that while there may be downside to the current share price, shareholders can be somewhat comfortable that considerable appreciation should be retained versus last Friday's closing price of $64.50. Indeed, AOL would have to fall to $43 to equate to a $64.50 value for Time Warner, we believe an unlikely scenario.

ANOTHER BID FOR TWX? Unlikely. Few companies have the resources to match the value of AOL's bid, assuming the shares stay around $72.63. However, we cannot entirely rule out this possibility. Risk-averse shareholders may want to take some profits given the volatility in Internet and technology stocks.
At yesterday's close the effective price paid by AOL for Time Warner is $110.63 per share of TWX. Time Warner closed at $92 per share, equating to a 19% spread, or a 27% annualized rate of return assuming a September 30th, 2000 closing price. This spread is a healthy return for the arb community.

WHAT DOES THIS MEAN FOR CABLE?
***Auld Lang Syne. Say goodbye to the cable industry as we knew it. Over 50% of the industry (58% to be exact) is in the hands of entities that do not view the industry as an end in itself, but rather a means to an end! First, AT&T bought a combined 27.9 million homes passed (through TCI and the pending MediaOne) to do more than run cable systems -- the cable systems are an integral element in the long distance giant's integrated telecommunications

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strategy, the last link to the customer. Then came Charter Communications, 9.8 million homes passed controlled by Paul Allen to deliver upon the "Wired World" convergence strategy. And now AOL's merger with Time Warner. This brings the total homes passed owned by these three to approximately 58 million, or 58% of US households. We believe the remaining 42% of the industry will now be under pressure to do something, either sell, merge, and/or strike deals with other Internet entities.

***Open Access. We think the announcement will continue to be positive for cable stocks. The issue of Open Access has been a big overhang to cable equity values, with AOL as a big nemesis. We think the AOL/TWX merger is a major step toward AOL and the cable industry allowing the marketplace to resolve the issue. The ferocity of AOL's position vis-.-vis this issue will probably be blunted. Furthermore, this "market solution," should also give the FCC's detractors evidence that the agency's laissez faire approach to Broadband regulation has merit.

***Valuation. While we believe the announcement is good for the group in general, we do not want to overstate the impact. For the near term, we believe Cox will rest here, while there may be a little more to go with Comcast. However, a comparable analysis to the TWX multiple is unavoidable. At the time of announcement, AOL's purchase of TWX valued the company at a 27.0 times 2000 estimated EBITDA multiple. The stock is currently trading at a discount to this, or 23 times 2000 EBITDA. If we apply a 23 times multiple to the rest of the cable group, the stocks would be trading at the following levels:

Comcast would trade at $60.50, or 20% appreciation from current levels;

Cox at $58, or 13% appreciation from current levels;

Cablevision at $119, or 46% appreciation from current levels;

Charter at $41, or 104% appreciation from current levels.

At a multiple equivalent to the deal valuation of 27 times 2000, appreciation potential would almost double for the names. We remain especially bullish on Charter and believe Cablevision should reach $95 based on fundamentals.

Accelerated Broadband Rollout. We believe this merger could push Time Warner's high speed data rollout to new levels, which may in turn have other major cable operators to consider cutting deals with AOL or other ISPs as well (especially with other operators who have no exclusive deal with At Home, such as Charter and Adelphia). We believe AOL's dominant narrowband presence and its popular content and features (Instant Messaging, Buddy List, etc.), combined with Time Warner's cable plant, which will essentially be fully rebuilt by the time the deal is expected to close, could meaningfully take up high speed data penetrations.

***Video Streaming. We think this merger brings AOL into the cable fold, which should lessen the threat that video streaming posed as a potential competitor to cable, most especially on the regulatory front. AOL will now have too much invested in traditional media distribution (cable systems and networks) to trash it.

***AT&T Discussions. TWX is in discussions with AT&T on 3 general issues: a) a telephony joint venture; 2) a restructuring of Time Warner Entertainment; and c) relaxing their contractual right to delay the AT&T merger with Media One. We think the merger now gives TWX more leverage regarding AT&T (How about free IP telephony with an HBO and AOL subscription?).

***Cable Telephony Rollout. Comcast and Cablevision's telephony strategies are affected as well in that the two MSOs are essentially waiting for the details of the TWX/AT&T telephony JV to be ironed out so that they can negotiate their own terms. We believe this may push the telephony rollout back for these operators as well.

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regulatory

***AOL/DirecTV Investment. While we believe this deal has minimal regulatory hurdles to overcome, AOL's $1.5 billion investment in DirecTV may be an issue, although how much of one is hard to tell. At the very least, we believe the two may unwind the investment for business reasons. Note that the AOL investment is in a tracking stock (not a claim on assets) and AOL does not have a board seat.

REGULATORY. For now, we cannot think of strong reasons why the deal will not go through. However, we believe there will be government scrutiny of some of the "program access" provisions in the OSP and Internet-access world, with the merged company agreeing to some terms to assure competitors access to content.

WHAT DOES THIS MEAN FOR ENTERTAINMENT? Given the Time Warner / AOL merger, we believe that the large-cap entertainment conglomerates will trade at heightened valuations as speculation surrounding new media deals increases. At Time Warner's closing price of $92 1/4, the shares are trading at approximately 23 times our 2000 adjusted EBITDA estimates. While we believe the AOL/Time Warner announcement is good for the group in general, as with the cable stocks above, we do not want to overstate the impact.

However, some of the comparables are compelling. At this 23 times multiple, the other entertainment stocks in our universe would reach the following share price levels:
** Disney - At 23 times our 2000 EBITDA estimate, Disney would reach $49 per share, a 37% increase from yesterday's closing price of $35 7/8.
** Viacom / CBS - At 23 times our 2000 EBITDA estimate, Viacom (pro forma) would reach $61 3/4 per share, a 5% increase from yesterday's closing price of $59.
** Seagram - At 23 times our 2000 EBITDA estimate, Seagram would reach $100 per share, an 85% increase from yesterday's closing price of $54.
** Fox - At 23 times our 2000 EBITDA estimate, Fox would reach $41 per share, a 66% increase from yesterday's closing price of $24 3/4.
** MGM - At 23 times our 2000 EBITDA estimate, MGM would reach $28 per share, a 16% increase from yesterday's closing price of $24 1/8.
(END PART 1 OF 2)

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08:38am EST 11-Jan-00 Bear Stearns (Katz,R/Vilensky,J 212/272-6857) TWX T CHTR
TWX: TWX/AOL More Ruminations on the Deal (PART 2 OF 2)

(PART 2 OF 2)

In the model explained above in the section, "WHAT IS GOING ON?", Aggregation (based on marketing and distribution) plus Retention (based on content) equals Monetization. The model implies that some of the entertainment conglomerates need more of the pieces of the puzzle to fit together to form something analogous to AOL/ Time Warner (if, indeed, this is the correct model). Most of the large entertainment conglomerates fit into Retention (their strength), by producing and owning the largest and best collection of past and future content.

***Disney has been at the forefront in the new media scene and has taken aggressive steps to push its on-line agenda. However, it seems that it will require continued marketing to achieve its objectives for Go.com. With Disney's strong brand recognition as well as its portal presence, we believe the Company would be a prime candidate for a merger between traditional and on-line media, probably another portal, although we believe management may believe it has all the necessary elements. If the AOL deal with Time Warner is a substantiation of the value of content, then Disney is not far behind as the creator and owner of some of the best global content.

***Seagram, as the purest domestic play in Music, is positioned well for the digital era, and represents a strong vertical play for a horizontal player. We believe the Music business will be a prime beneficiary of the transition to a world of "bits", and drive e-commerce (impulse buy) and traffic. For new media companies that are looking to expand vertically, Seagram represents a play for Music Content.

***Viacom / CBS has strong distribution in the traditional media space (with the "verticals" of its cable networks and the "horizontal" CBS Television Network) and strong verticals coming off its cable networks. The company is probably best positioned as a partner of sorts with a strong horizontal player.

***For the Fox Entertainment Group, worldwide distribution is readily available through parent News Corporation. We would not rule out the entity linking up with a portal that would highlight and leverage their strong base of content. Fox is the largest producer of television sitcoms on broadcast television and one of the leading film producers.

***MGM, a stand-alone pure-play studio and television producer, is a likely partner for a "content-hungry" new media Company. With MGM's rich library of movies and television shows, it could be a natural fit for an on-line business looking to round out its retention capabilities.

Companies Mentioned:
AT&T (T - Neutral $50.88)

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08:31am EST 11-Jan-00 Bernstein (TOM WOLZIEN 212-756-4636) AOL TWX AOL.RV
AOL-TWX DAY II: FILLING HOLES IN EACH OTHER, DSL TESTS FAIL, DCF VALUE...(1/2)

1/10/00

	This FY Ends	Rating	Close	YTD Perf	EPS Last FY	EPS This FY	EPS Next FY	P/E This FY	P/E Next FY	Yld	Ent Mult This FY	Ent Mult Next FY
AOL	Jun-00	O	$71.13	-6%	$0.17	$0.32	$0.58	225	123	0.0%	118.1	67.0
TWX	Dec-00	O	$90.25	25%	$0.35	$0.60	$1.03	151	87	0.2%	20.8	17.8
SPX			$1,458	-1%	$51.00	$54.50	$56.67	29	27			

O - Outperform, M - Market-Perform, U - Underperform

* AOL (55%) Time Warner (45%) deal fills AOL holes in high speed distribution, access to top-drawer advertisers, and content essential to ad-based growth; offsets Time Warner's inability to exploit content effectively on web.

* Very early DCF of combined company (with no guidance on balance sheet) puts fair value without synergies and only for four years in current trading range; AOL after tax cash flow jumps by 57% in Calendar Year '01, free cash by a third; EPS tanks from record goodwill.

* Revenue growth rate drops from 20% range for AOL to 12% range for combined companies; EBITDA growth from low 30% range to high teens through 2004.

* Principal revenue synergies may come in boosting ad sales by cross selling (for reference, 10% across board delivers $1 b), cross marketing products, and resolving online music sales issues. Normal merger cost cutting likely in overhead areas.

* Test of Complex Process of DSL high speed phone line installation thought (by us) to have proven too slow and too difficult in near term, pushing AOL toward Cable

Investment Conclusion
With first pass DCF valuation of combined companies in current trading range and work still to be done on synergies, at least some of which are likely, we are maintaining our outperform on both AOL and Time Warner. The principle downside risks are in execution and interest rate impact on the valuation methodology (each quarter point change from the current 6.5% rate moves DCF valuation by about 9%). Upside potential for this company lies in those areas that we can't foresee today.

Details
The Deal: Yesterday, AOL and Time Warner announced plans to merge both companies to be called AOL Time Warner. The deal will be accounted for as a purchase deal. AOL is the surviving company where it will issue 1.5 shares of AOL Time Warner for every share of Time Warner. AOL shareholders get one share of the new company. The purchase deal will create about $195 billion of goodwill to be amortized over 20 years. The new combined company will be 55% owned by AOL shareholders, 45% by Time Warner with AOL's current chairman, Steve Case as the chairman of the new company, and Time Warner's chairman & CEO Jerry Levin, as the CEO of the new company.

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At yesterday's close, AOL's new, combined market cap with some 4.8 billion pro forma shares, stands at around $350 billion representing nearly $65 billion in value created since Friday's close. As of today, Microsoft, GE and Cisco Systems are the only companies in the U.S. with a greater market value. Deal is expected to close within a year, the companies say, after appropriate national regulatory review and transfer of local cable licenses.

First Pass at a Combined Income Statement: After changing AOL estimates to a calendar year-as we expect AOL will eventually do-rather than AOL's current June fiscal year, we have been able to develop first-pass combined company estimates. The combined companies in calendar year 2001 are expected to produce $42.3 billion in revenue, roughly 75% or so from Time Warner. EBITDA in '01 looks like about $12 billion, again about 75% from Time Warner. All our numbers are based on our current estimates, before any synergies, which we'll discuss later. On a cash basis, the results are excellent for the new AOL. After Tax cash flow jumps from $0.83 per AOL share to $1.30 before any synergies. Free cash flow jumps from $0.63 to $0.84. Our first attempt at combining estimates is seen in the Income Statement at the end of this call. We expect to refine our processes for shifting AOL to a calendar year and may see changes in balance-sheet related items as the companies begin to provide some guidance, but that won't be for awhile so this is our best, first shot.

Reasons for Deal: These are two companies don't need each other today, but they will soon. Time Warner's efforts to exploit its content on the web have not gone as quickly as certainly we'd hoped, even though the company's combined web sites are consistently in the top 10 in unique users, according to data under our continuing Bernstein contract with Nielsen net ratings. So going forward, Time Warner has recognized the tremendous first mover advantage that AOL has, and its own difficulties in exploiting its vast libraries of proprietary content on the web.

Filling AOL's Holes: From AOL's side, the deal fill three holes. First, it begins to solve AOL's need to gain high speed internet access via cable modems-of course Time Warner is now the largest cable company with 20 million homes passed. Second, it gives AOL relationships with virtually every top-drawer advertiser in the country. Third, it provides AOL with the proprietary content that it will need for all of its sites over the next years as tries to increase the number of online consumers, the time consumers spend on line, and the access by advertisers to those consumers.

Looking for Synergies: There are probably synergies in all this, but last decade's experience with synergy-justified deals like Disney-Cap Cities and Viacom-Paramount-Blockbuster provide lessons of caution. That said, the companies are guiding to about $1 billion in EBITDA synergies in year one-about an 8% increase--from a combination of revenue and cost as AOL tries to capitalize on the Time Warner advertising relationship and as overlapping costs are removed. Going forward, the ability to exploit Time Warner's brands on the web, to introduce new creative product, and push services across web and conventional media all should help improve the combined companies.
We did some sensitivity testing overnight, and found that a 10% increase in advertising in all units would deliver $1 billion in increased EBITDA.

May Help Problematic Music Industry: On the music side, the merger is seen as a major benefit to the music industry as it aligns the interests of the world's largest online player with the interests of one of the five major world music

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labels. As a result, we expect this marriage to accelerate the selling/marketing of music online while helping reduce the threat of non-industry approved languages (e.g., MP3) and piracy. Previously, AOL's unaffiliated status and its ownership of MP3 player WinAmp worried us about their commitment to music e-commerce thereby attempting to bypass the five major music companies including Time Warner. In particular, the combination of AOL and Warner Music should deliver significant promotional benefits to Warner's lagging music group which recently dropped from 2nd place to 5th place in the U.S. Going forward, AOL should be able to use its front screen and consumer preference database to better market Warner's music products. Longer term, these benefits should help lift Warner's music business above the remaining four non-affiliated companies.

Redefining Open Access: For the last year, we have been concerned about the implications of access to the cable systems by companies like AOL. We have felt it is essential for AOL to provide broadband product across high speed services, with cable the most desirable because ultimately it reaches the television set as well as the PC, whereas alternatives like telephone company digital subscriber lines are primarily PCcentric. In addition, this access is important because new and most likely higher quality and more effective entertainment and advertising will be on the high speed links. Extensive broadband research we have been doing suggests that the DSL rollout is not going as planned due to mass market installation problems, of which early indications were seen in the late fall (See October 29,1999 call.). AOL tried to cut some cable deals, failed, and subsequently backed challengers in court, while the FCC took a hands off approach saying the web was too young for regulation. The new deal shifts the open access debate out of the regulatory and judicial arenas and back to the negotiating tables of the private marketplace, where we believe it belonged all along. AOL-Time Warner managers yesterday said they support business arrangements opening up access, and AT&T has said the same thing, but once its @Home deal goes away in two years. So, with today's announcements, other ISPs should be able to negotiate with Time Warner for cable access.but of course AOL because of its significant market share plus new Time-Warner based proprietary content will come out very well even with competition.

Introducing TWE: Any discussion of AT&T leads to the very complicated partnership called TWE or Time Warner Entertainment. TWE includes the Warner Studio, HBO, and most cable systems owned and operated by Time Warner. Back when Time Warner was in trouble in the early '90s, US West took about 25% of the equity in TWE, that moved with US West cable operations to the spin-off cable company MediaOne, which now is being sold to AT&T. So effectively, when the MediaOne deal closes, AT&T will own a quarter of TWE. In addition, Time Warner and AT&T said a year ago that they think that AT&T should be allowed to provide local and long distance phone service across the Time Warner cable lines. As a result, a phone deal remains on the table. Time Warner's Levin yesterday said when AT&T gets closer to closing MediaOne, then negotiations will restart in earnest. In our view, those negotiations will come with more leverage on AOL/TimeWarner's side, but it also breaks the open access log jam for AT&T and the entire cable industry.

First Pass at Valuation: At the end of the year, we revised our target price for AOL to the $85 range, based on our 10 year DCF analysis. Our Time Warner target price including what we had estimated for the present value of future web-advertising sales is pushing $100. Using our rapidly constructed joint

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model, we have developed a combined DCF valuation estimate, which puts the combined companies in the $70 range, before synergies and using only a four year DCF. For reference, a 0.25% change in interest rates shifts the DCF by about 9%. The components of the DCF are shown in Exhibit 1.

Exhibit 1 First Pass DCF Analysis of Combined AOL/Time Warner
(PLEASE CALL FOR EXHIBIT)

Other Companies, Other Deals? This is a unique deal between two companies that are, in many ways, balanced. Most importantly is that both have a significant distribution component-Time Warner's high speed cable platform and AOL's virtual-distributorship by virtue of it being the gatekeeper for some 20 million homes. But there are implications in this deal big media and web players. For them, this deal is all about content and not distribution. As we have written (April 23, 1999 Research Notes), proprietary content and services is eventually the key to selling large amounts of advertising because it is proprietary content that consumers want that will bring them to one place rather than another. On the web this content will take the form of information or entertainment, and likely be most effective in a moving format like television pictures. To us that suggests that big web companies (and there are not many of them, as Exhibit 2 shows) will likely need the content of the remaining largest media companies who, of course, also need broad web distribution. Of the companies we cover, Disney and Viacom/CBS have that content. Disney has more, while Viacom/CBS has a unique distribution platform in its radio assets. While we don't cover it, News Corp can be added to the list. (Exhibit 1 provides the top 10 owners of sites by unique users for December and their respective market cap as of yesterday. AOL's proprietary service is not included.)

(END OF PART 1 OF 2)

-> End of Note <-

-- FIRST CALL --

08:31am EST 11-Jan-00 Bernstein (TOM WOLZIEN 212-756-4636) AOL TWX AOL.RV
AOL-TWX DAY II: FILLING HOLES IN EACH OTHER, DSL TESTS FAIL, DCF VALUE...(2/2)

In our thinking, Disney is the next best content company with web upside to Time Warner. Granted their merger with Infoseek to create Go has helped a bit, but true realization of the content value probably won't come unless there is a big deal like yesterday's. On the web side, the two biggest remaining players are Yahoo and Microsoft. So, some combination of Yahoo or Microsoft plus Disney, Viacom/CBS when the current merger gets completed this spring, or News Corp would seem to make sense, With Disney having the most upside potential.

For those who question whether the remaining media companies need to do deals, there is the nightmarish alternative of what happens if they don't, and all the remaing big web guys merge with all the other big media companies, and you're left alone, out in the cold, facing monsters in the night.

Exhibit 2 Top Web Owners and Market Cap
(PLEASE CALL FOR EXHIBIT)

Exhibit 3
Combined AOL Time Warner Estimates: First Pass, AOL Adjusted for Calendar Year

TOM WOLZIEN
212-756-4636

RAY HADDAD
212-756-4581

-> End of Note <-

-- FIRST CALL --

10:09am EST 11-Jan-00 Prudential Securities (K.STYPONIAS/S.LYNNER 212-778-8647)
TWX: STRATEGIC MERGER WITH AOL CREATES FORMIDABLE MEDIA COMPANY... (1 of 2)

TWX: STRATEGIC MERGER WITH AOL CREATES FORMIDABLE MEDIA COMPANY FOR THE 21ST CENTURY; WE THINK FEDERAL REGULATORS WILL APPROVE THE MERGER--REITERATING OUR ACCUMULATE RATING ON TWX (PART OF 1 OF 2)

R E S E A R C H   N O T E S

January 10, 2000

Subject: Time Warner Inc. (TWX-94 5/8)--NYSE

Analysts: Katherine Styponias (212) 778-8647
Susan Lynner (703) 358-2989
Target Price: Under Review

OPINION
==========
Current: ACCUMULATE
Prior:
Risk: MODERATE

Ind. Div.: $0.18 Yield: 0.2% Shares: 1,397 Mil. 52-Wk.Range: 95-57

EPS	FY	Year	P/E	1Q	2Q	3Q	4Q
Actual	12/98	$(0.34)A*		$(0.13)	$(0.01)	$(0.03)	$(0.17)
Current	12/99	$ 0.36 E**	262.9X	$ 0.00A**	$ 0.12A**	$ 0.08A	$ 0.16E
Current	12/00	$ 0.70 E***	135.2X				

EV/EBITDA							
Actual	12/98	$ 4.30A		$ 0.91	$ 1.08	$ 1.06	$ 1.25
Current	12/99	$ 4.77E**	16.1X	$ 1.06A**	$ 1.23A**	$ 1.13A	$ 1.36E
Current	12/00	$ 5.21E***	21.3X				

*Excl. a gain of $0.04 in 98 and loss of $0.29 due to one-time events (Primestar write-off and redemption of Series M preferred); actual results adjusting for these events was $(0.06). **Excl. a one-time pre-tax gain of $215 mil. in 1Q 99, $771 mil. in 2Q99, and $477 mil. in 3Q99. ***Our FY00 EPS estimates do not incorporate losses of about $0.10 due to Internet spending of $200-$250 mil. FY00 EBITDA per share estimates are before Internet spending. EBITDA results are based on basic shares outstanding.

Summary: Time Warner and America Online, Inc. (AOL--$74 9/16, rated Strong Buy/SBI/Select by Prudential Securities Computer Software analyst Paul Merenbloom) today announced a strategic merger to create an integrated media company with powerful content and distribution assets. The all-stock transaction will create a new company, to be named AOL Time Warner Inc., valued at $350 billion. The transaction is expected to close by end of calendar-year 2000.

Highlights:

o Under the terms of the merger, both Time Warner and AOL stocks will be converted into AOL Time Warner stock at a fixed ratio. Time Warner shareholders will receive 1.5 shares of the new company for each share of Time Warner while AOL shares will be exchanged at a 1:1 ratio. AOL shareholders will own approximately 55% and Time Warner shareholders will own 45% of the new company. The new company will trade under the symbol AOL on the NYSE.

o On a combined basis, AOL Time Warner will have revenues of over $30 billion. Pro forma 2001 revenues are expected to reach $40 billion, with pro forma EBITDA of $10 bil. The EBITDA estimates include roughly $1 bil. in merger synergies that result from both enhanced revenue opportunities as well as cost savings.

-- FIRST CALL --

o We think that federal regulators will approve the merger. But we expect intense (but probably not hostile) scrutiny from the FCC and federal antitrust regulators. We assume eventual approval, with perhaps a 10-month review period in the ballpark from the date of filing with federal regulators.

o The management team of AOL Time Warner will include management from both companies. AOL's Steve Case will become Chairman of the new entity, with TWX's Gerald Levin serving as CEO. Mr. Levin will report to a 16-member board that includes 8 directors appointed each by Time Warner and AOL. In addition, Bob Pittman of AOL will serve as chief operating officer (COO), with TWX's Richard Parsons serving as co-COO. Michael Kelly of AOL will serve as the company's new CFO and TWX's Ted Turner will serve as Vice Chairman of the new entity.

o The new company combines Time Warner's portfolio of premiere brands and content and cable infrastructure with AOL's Internet franchises, technology and infrastructure that should yield enhanced revenue opportunities for existing businesses as well as the creation of new revenue streams.

We Think This Could Represent A Paradigm Shift In The Way Investors View Entertainment Companies. We think that the combination of TWX and AOL creates a paradigm shift in the way that investors will value entertainment/media companies. We believe that as broadband connections and digital TV set-top boxes increase, making the Internet more conducive to video-streamed content, those companies with programming expertise, vast libraries of video and music content, and established consumer brands should become more valuable, because creation of new content brands should become increasingly more costly and difficult in a world where audiences will continue fractionalize. We also think the Internet will allow accelerated growth of existing revenue streams such as advertising, as well as the creation of new ones, both implying accelerated cash flow growth and therefore multiple expansion. The difficulty, however, lies in the fact that no one is sure how much cash flow growth will acclerate, since some of these new businesses are still in the process of being developed.

Therefore in the short-term, we think investors will focus on which companies that like Time Warner have a diversified portfolio of content assets, as well as offline distribution that will be viewed as attractive strategic partners to Internet companies. In that regard, we think Disney ($35 316, rated Hold), CBS/Viacom (VIA.B--$57 11/16, rated Accumulate) and Fox Entertainment (FOX--$25 5/8, not rated) have the most attractive set of content/offline distribution assets.

The Time Warner shares are currently trading above our current price target of $80 and even above our longer-term price target of $90. From a strategic standpoint we think the combination with AOL makes a great deal of sense and significantly enhances the growth opportunities for Time Warner, but we will need to revisit what price target that ultimately translates into. However from a strategic standpoint, we believe this company is extremely well positioned to take advantage of the new growth opportuntities the Internet has and continues to bring.

Prudential Securities Incorporated acts as a specialist that makes a market in the security of Time Warner, AT&T Corp. and MediaOne Group. At any given time, the specialist may have a position, either long or short, in the security, and, as a result of the associated specialist's function as a market maker, such

-- FIRST CALL --

10:12am EST 11-Jan-00 Prudential Securities (K.STYPONIAS/S.LYNNER 212-778-8647)
TWX: STRATEGIC MERGER WITH AOL CREATES FORMIDABLE MEDIA COMPANY... (2 of 2)

TWX: STRATEGIC MERGER WITH AOL CREATES FORMIDABLE MEDIA COMPANY FOR THE 21ST CENTURY; WE THINK FEDERAL REGULATORS WILL APPROVE THE MERGER--REITERATING OUR ACCUMULATE RATING ON TWX (PART 2 OF 2)

R E S E A R C H   N O T E S

January 10, 2000

Subject: Time Warner Inc. (TWX-94 5/8)--NYSE

Analysts: Katherine Styponias (212) 778-8647
Susan Lynner (703) 358-2989
Target Price: Under Review

OPINION

Current: ACCUMULATE
Prior:
Risk: MODERATE

Ind. Div.: $0.18 Yield: 0.2% Shares: 1,397 Mil. 52-Wk.Range: 95-57

EPS	FY	Year	P/E	1Q	2Q	3Q	4Q
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Current	12/00	$ 0.70 E***	135.2X				
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Current	12/00	$ 5.21E***	21.3X				

*Excl. a gain of $0.04 in 98 and loss of $0.29 due to one-time events (Primestar write-off and redemption of Series M preferred); actual results adjusting for these events was $(0.06). **Excl. a one-time pre-tax gain of $215 mil. in 1Q 99, $771 mil. in 2Q99, and $477 mil. in 3Q99. ***Our FY00 EPS estimates do not incorporate losses of about $0.10 due to Internet spending of $200-$250 mil. FY00 EBITDA per share estimates are before Internet spending. EBITDA results are based on basic shares outstanding.

We Expect The Deal To Win Federal Regulatory Approval, After Intense Review For Its Long-Term Implications For Net Content Distribution. We expect the coming days and months to provide more opportunity to develop insights into various aspects of the merger (i.e., the open-access debate, its implications for content distribution over the Internet, possible challenges to traditional video distribution channels). But we would note from the outset that we expect approval--and that regulatory scrutiny may flow not so much from a presumed hostility to the deal as from a fascination with its implications for the Internet, broadband deployment, and a new model for content distribution.

1. We think that federal regulators will eventually approve the proposed merger between America Online (AOL, rated Strong Buy/SBI/Select List by Prudential e-commerce/computer software analyst Paul Merenbloom) and Time Warner (TWX, 64 3/4, rated Accumulate by Prudential Securities entertainment analyst Katherine Styponias). But we expect intense (but probably not hostile) scrutiny from the FCC and federal antitrust regulators. Justice and the FTC decide which agency will review a deal for antitrust implications (the FTC reviewed the Time Warner/Turner deal; Justice reviews the major telecom deals). Both Joel Klein (DOJ) and Robert Pitofsky (FTC) have made it clear that they are extremely interested in understanding and reviewing major deals with implications for the growth of the Internet. So clearly, this deal will undergo a tough antitrust

-- FIRST CALL --

review, with the implications for content distribution over the Internet likely to be a key aspect of that review. We are projecting a ballpark 10-month review period from the date of filing with federal regulators.

2. We think this deal obliterates the Berlin Wall dividing ISPs (Internet service providers) from holders of intellectual property (i.e., the movie industry) and broadcasters. Late last year, during the final negotiations over the legislation that gave DBS operators the right to beam local programming, the broadcasters and movie industry tried to block ISPs from any right to negotiate a federal license to beam local broadcasting; the effort failed. We think that the AOL/Time Warner deal implies that TWX will work with AOL to solve the issue of time limits of about 10 minutes now imposed by many cable platforms on video streaming. We also think that, over the long term, the AOL Time Warner partnership may speed up discussions here in Washington about whether ISPs should have the right to stream full motion pictures and local broadcast signals.

3. We assume from the AOL/Time Warner conference call that Time Warner will be agreeable to some sort of open access covenants (though perhaps not unlimited open access if technology limits do indeed apply) as local cable authorities consider the cable franchise requests triggered by the deal.

4. Assuming such Time Warner agreements at the local level, we think that AT&T (T, 49 1/4, rated Strong Buy by Prudential Securities wireline analyst Guy Woodlief) will feel more pressure to move more quickly to implement open-access, perhaps before the mid-2002 expiration of the exclusive Excite@Home contract (ATHM, 38 15/16, rated Strong Buy by Paul Merenbloom). On the plus side for AT&T, though, we think that the AOL Time Warner deal may lessen some pressure on AT&T as the only 800-pound gorilla on the cable broadband scene: now there will be two major alliances devoted to cable broadband deployment (assuming regulatory clearance of the new deal), which may make AT&T less of a lightning rod for manifold complaints about unrivaled control over broadband deployment. In fact, the new deal may shift complaints from unaffiliated ISPs in the regulatory away from the AT&T "open access" focus to concerns about a major pairing of content and ISP distribution, which could imply some disadvantage to the unaffiliated ISPs.

5. We think that the AOL Time Warner deal gives the FCC more ammunition for its preference to refrain from imposing an open-access mandate (details on AOL Time Warner's position on open access will, per their conference call, be fleshed out in filings and discussions with the FCC and the antitrust regulators); the deal seems to bear out FCC Chairman Kennard's position that commercial marketplace forces will take care of the open access issue without burdensome regulatory intrusions.

6. We also think that the deal will help make AT&T's argument at the FCC that it will have no control over TWE's cable programming decisions via its pending merger with MediaOne (UMG, 75 7/16, not rated), thus qualifying AT&T for the limited partnership exemption created by the FCC in its October cable cap rules (e.g., an LP in a limited partnership would not have the cable subs of that partnership attributed to an LP with no managerial control over the partnership's cable programming). With the marriage of content and AOL's distribution a major theme of the new merger, we think that the FCC will be even more comfortable with the argument we always expected to prevail--that AT&T has no control over the TWE programming.

-- FIRST CALL --

7. We expect that the AOL Time Warner deal's implications for accelerating cable broadband deployment may reinforce the campaign on Capitol Hill to pass legislation that would free the Bell operating companies from their long-distance entry obligations to the FCC solely in order to deploy high-speed data networks. The bill -- from Reps. Billy Tauzin (R., LA) and John Dingell (D., MI) -- has almost 150 sponsors in the House. But it has not gained similar backing in the Senate, and the CLECS/AT&T vigorously oppose it. We think that election-year factors will likely mean that the bill does not get done this year--but we do think that it will be a top legislative priority for BOCs this year.

Prudential Securities Incorporated acts as a specialist that makes a market in the security of Time Warner, AT&T Corp. and MediaOne Group. At any given time, the specialist may have a position, either long or short, in the security, and, as a result of the associated specialist's function as a market maker, such specialist may be on the opposite side of orders executed on the floor of a national securities exchange.

Prudential Securities Incorporated(and/or its affiliates) or their officers, directors, analysts, or employees may have positions in securities or commodities referred to herein, and may, as principal or agent, buy and sell such securities or commodities.

-> End of Note <-

08:51am EST 11-Jan-00 SG Cowen Securities Inc. (HATCH, EDWARD 212-495-6545) TWX
TWX/AOL/TWX MERGER CREATES NEW SIZE,SCALE AND GROWTH PARADIGMS .../STRONG BUY

PART 2:2

A FIRST LOOK AT AOL/TWX GOING FORWARD- LEVERAGING BRAND FRANCHISES
The preceding sections highlight some of the key franchises of TWX and AOL and the scale at which they operate. We believe that the future opportunities could be enormous because of the scale dynamics at work. A few examples

CNN News is distributed in about 75MM cable and satellite homes in the US. If AOL makes CNN its preferred vendor to its 25MM subscriber base, CNN should be able to command greater advertising sales, market share, and mind share. CNN's costs are largely sunk, so incremental sales are high margin.

The same can be said for other content franchises. Sports Illustrated should prosper and gain competitive ground on ESPN as its platform rises.

Fortune and Money magazines may be leveraged in the area of business and consumer finance.

Overall, TW Brands will become more powerful. We expect consumers will always have access to all brands, TW brands may be better positioned in the service and since its brands are world class, it will be easy for AOL to lead with TW content in many cases.

Packaging and Cross Promoting the AOL On Line Service and TW Cable Service. A few examples:

An AOL subscriber without cable in a TW Cable system will be marketed to take cable service or upgrade to premium channels like HBO, pay-per-view, or new digital service tiers when available. There may be price incentives to do so.

TW Cable subscribers that do not take AOL (or a lower $9.95 service) can be marketed to subscribe or upgrade as well.

AOL telephone-based service may be migrated to cable modem service at $40 per month from $22 when it is available.

MERGER TERMS
The proposed merger of AOL and Time Warner - which will be renamed AOL Time Warner - calls for TWX shareholders to receive 1.5 shares of the new company for each TWX share; AOL shareholders will receive one share. It will be accounted for as a purchase of Time Warner. AOL Chairman and CEO, Steve Case, will be Chairman; Time Warner Chairman and CEO, Gerald Levin, will be CEO, and the respective Presidents and COO's, Dick Parsons and Bob Pittman, will be Co-COO's. There will be a review by the FTC and FCC. The latter process will be lengthy, due primarily to the transfer of the numerous TW Cable franchises to the new company. The process could reopen discussions about open access talks in the industry and at the municipal level. To date, the FCC has had a hands-off stance on the issue. Management commented that a year-end close is possible.

VALUATION IMPLIES POTENTIAL $110-130 PRICE TARGET FOR TWX SHARES
The future value of Time Warner shares becomes more complicated with its proposed AOL merger. We believe that the shares could reach $110-130 in 12-18 months, based on an enterprise value multiple of 34x preliminary 2001E EBITDA. This is based on the current valuation and a 25-50% premium to

-- FIRST CALL --

AOL. The shares should reach a 50% premium to AOL, implying the $130 price target based on the deal terms. They are trading at just a 25% premium to the offer, due to deal uncertainty and the expectation that the closing is still almost 12 months away.

Our rationale is as follows. Before the deal, TWX was trading at about 15.2x our estimate of its 2000 enterprise value, using an EBITDA of $6.6B, which was forecast to grow at 13.5% annually. Together with AOL, the growth rate is forecast to increase to 19% without any "synergy." Combined operating income is forecast to rise at a 34% annual rate. The underlying unit growth of AOL/TWX is compelling, with 25% subscriber growth at AOL and 5-10% distribution growth in cable network homes. It is unique compared to other "proven media" companies in publishing, radio, TV, and music.

AOL is valued at about 90x 2000E EBITDA and 60x 2001E EBITDA, a high, but rapidly shrinking multiple based on its 55-65% expected near-term 2000-2002 growth rate. Combined, the merged companies are being valued at 33x 2000E EBITDA and 39x trailing 1999E EBITDA. Going forward, we assume little synergy and a 34x multiple (equal to the operating income growth rate). This also equates to 170% of its forecast 19% EBITDA growth rate and compares to the 180% ratio for AOL and 125% ratio for TWX. We assumed $30B of "other assets" from TWX's stake in TW Telecom, a 50% equity stake in Comedy Central, the WB broadcast network, and numerous other assets that are currently not cash flow positive, but valuable, minority interest stakes and other items. This is a small percentage of the $300B total enterprise value.

SG COWEN SECURITIES CORPORATION BOSTON (617) 946-3700 NEW YORK (212) 495-6000 (212) 278-6000 SAN FRANCISCO (415) 646-7200 CHICAGO (312) 704-7400 ALBANY (518) 463-5244 CLEVELAND (216) 621-8300 DAYTON (937) 226-4800 HOUSTON (713) 652-7100 PHOENIX (602) 840-0951 LONDON 44-171-710-0900 GENEVA 41-22-707-6900 PARIS 331-4244-1740 TOKYO 813-3503-0371 TORONTO (416) 362-2229 ZURICH 41-1-225-2040

-> End of Note <-

-- FIRST CALL --

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From: Williams, Daniel
Sent: Wednesday, February 23, 2000 6:14 AM
To: Connie Luisi; Danny Sullivan; Edna Johnson; Jay Higginbotham; Joel Hylen; Laura Fortner; Maggie Ramsey; Mark Sacher; Mitch Lazar; Monty Mullig; Sam Gassel; Scott Teissler; Scott Woelfel; Tommie Scanlan
Subject: FW: Cyber Dialogue Finds AOL Will Reach Nearly 27 Million Time Warner Cable Channel Viewers Who Shop Online

-----Original Message-----
From: Nikki Addicott [mailto:naddicott@mail.cyberdialogue.com]
Sent: Tuesday, February 22, 2000 1:21 PM
To: daniel.williams@turner.com
Subject: Cyber Dialogue Finds AOL Will Reach Nearly 27 Million Time Warner Cable Channel Viewers Who Shop Online

Dear Dan:

I thought you may be interested to see our latest press release about how AOL Buys Top Online Shoppers in Proposed Time Warner Merger
----

NEW YORK, Feb. 22, 2000 - When evaluating the AOL/Time Warner merger, all online shoppers are not created equal. Cyber Dialogue, an Internet customer relationship management firm, today released a study that found AOL would gain direct access to 26.8 million Time Warner Cable channel viewers who are already online but not current AOL subscribers. This audience is highly desirable because they spend on average more than $2,200 on Web-related purchases per year, $300 more than typical AOL users.

"AOL will benefit significantly from the merger if it can convert those valuable Time Warner Cable viewers into AOL subscribers and attract their e-commerce dollars," stated Idil Cakim, an analyst for Cyber Dialogue. "To do this, they must develop effective marketing strategies that serve consumers' individual needs, both online and offline, creating a continuous entertainment experience for their audience."

Cyber Dialogue also found that AOL and Time Warner cable networks are in a position to directly target 80% of the total online adult population. The study's findings herald a necessary shift in overall marketing strategy away from the traditional mass-market approach to that of targeting a 'new audience,' seamlessly accessible via the Internet and cable television. Inevitably, as AOL and Time Warner cable channels merge, the dynamics of their respective audiences will shift. Consumers who are accessible through both the Net and cable television will represent the core of the combined venture's customer base.

"The Internet provides the new mega-media enterprise with the opportunity to speak directly to its audience, understand their preferences, and target small but valuable user groups. Meanwhile, the cable network provides a vehicle for distributing entertaining content on a mass scale," continued Cakim. "Following the acquisition, AOL/Time Warner will be well-positioned to reach, communicate, and interact with its online audience members through richer content both online and offline."

Other Cyber Dialogue findings include:

¨ AOL users who watch Time Warner cable channels are significantly more valuable than those AOL users who do not watch these channels ($2,105 avg. online spending per year vs. $1,463).

¨ Time Warner cable viewers who visit TV-related sites but don't subscribe to AOL comprise a more valuable user group than both the average online adult and the average AOL user ($1,903 avg. online spending per year vs. $1,559 and $1,521, respectively).

¨ The value of online cable viewers and their tendency to visit TV-related Web sites suggests that bundling content from online and offline media can be used to target, acquire and retain these potentially lucrative interactive consumers.

The above findings are from Cyber Dialogue's Cybercitizen Entertainment Program (CCE). Cybercitizen Entertainment consists of in-depth interviews with 1,000 Internet users and 1,000 non-users conducted quarterly. CCE is a strategic information service dedicated to providing the most comprehensive information and analysis corresponding to consumer demand for movie, music, television, sports, game, and gambling-related content online. Cyber Dialogue defines online spending as those transactions completed online; and offline spending as those purchases made through traditional retail channels after retrieving product information online. Sponsorship information for CCE can be found at http://entertainment.cyberdialogue.com.

Please feel free to contact me if you have any questions regarding this release or your service.

Nikki Addicott
Client Service Manager
Direct Telephone: 800-539-7126 Direct Fax: 607-275-9591
mailto:naddicott@cyberdialogue.com http://www.cyberdialogue.com

TIME WARNER

Memorandum

TO:	Steve Abramson	Don Logan
	Ed Adler	Mike Luftman
	Roger Ames	Michael Lynne
	Richard Atkinson	Rob Marcus
	James Barge	Jim McCaffrey
	Jeff Bewkes	Terry McGuirk
	Sue Binford	Barry Meyer
	Ed Bleier	Vicky Miller
	Chris Bogart	Mindy Mount
	Tim Boggs	Bill Nelson
	Rich Bressler	Jim Noonan
	Glenn Britt	Ray Nowak
	Bob Brodbeck	Olaf Olafsson
	Barbara Brogliatti	Wayne Pace
	Joe Collins	Dick Parsons
	Peter Costiglio	Phil Pitruzzello
	Dave DePinho	Richard Plepler
	Jerry Gold	Sandy Reisenbach
	Don Guerette	Joe Ripp
	Peter Haje	Ed Romano
	Reg Harpur	Howard Rosen
	Tommy Harris	Bruce Rosenblum
	Steve Heyer	Robert Roth
	Landel Hobbs	Mack Ruckman
	Ivan Hodac	Bob Shaye
	Alan Horn	Julia Sprunt
	Maz Jadallah	Rich Stein
	Derek Johnson	Joan Sumner
	Tom Johnson	Stephen Swad
	Andy Kaslow	Kevin Tsujihara
	John LaBarca	Ted Turner
	Jerry Levin	Ed Weiss
	Jay Levine	Rick Yeager

FROM: John Martin

DATE: February 8, 2000

Attached are some recent analyst reports that I thought you'd find interesting.

TWX2

tlox 2

06:52am EST 8-Feb-00 PaineWebber (Dixon, Christopher P. 212-713-2420) TWX AOL
Time Warner: AOL's Pittman Outlines Strategic Vision

Entertainment, Leisure, New Media
Christopher Dixon
212-713-2420/cdixon@painewebber.com
James Preissler, Analyst (212-713-2060)
Catherine Kim, Associate Analyst (212-713-3446)

PaineWebber
RESEARCH NOTE

February 8, 2000

Rating: Buy

Time Warner
(TWX-$84.13)(3)
Time Warner: AOL's Pittman Outlines Strategic Vision

Key Data		Quarterly Earnings Per Share (fiscal year ends December)					
			1999A	2000E	Prev	2001E	Prev
52-Wk Range	$91-59						
Eq.Mkt.Cap.(MM)	$98,634	1Q	$0.00				
Sh.Out.(MM)	1,172.4	2Q	0.12				
Float	67%	3Q	0.08				
Inst.Hldgs.	65.6%	4Q	0.20				
Av.Dly.Vol.(K)	3,741	Year	$0.39	$0.57			
Curr. Div./Yield	$0.18/0.2%	FC Cons.:	$0.36	$0.61		$1.00	
Sec.Grwth.Rate	12%	Revs.(MM):	NA	NA		NA	
12-mo. Tgt Price	$170.00	P/E:	215.7x	147.6x		NM	
12-mo. Ret. Pot'l	102.3%						
Convertible?	No						

KEY POINTS

* In a PaineWebber sponsored conference call yesterday, America Online's (AOL-$57.63) President and COO, Bob Pittman, highlighted some of the key areas of opportunity for the new AOL/Time Warner, as the new company looks to extend its "world class brands" across a proven infrastructure. Pittman believes that each company can act as catalyst to the other's core competencies resulting in accelerating growth as the Internet continues to develop.

* Key drivers stem from the fully developed nature of each company's operations, as new businesses can generate incremental returns immediately as scale begins to take hold. With 24 million current subscribers, over 135 million registered users and average time on-line of over 63 minutes per day, AOL currently holds a leading position on the Internet. When coupled with Time Warner's estimated 2.5 billion monthly customer "contacts," the combined company's consumer presence is difficult to emulate. In addition to core subscriber growth, expansion of AOL Anywhere and emergence of mobile computing represent the next major phase of growth.

* Music: Pittman sees the combined AOL/Time Warner leading the Music industry's move to the 'Net much the way AOL did with e-mail. As more user-friendly methods to download music are established, the opportunities to leverage the Time Warner/EMI assets represent an opportunity for the company to fuel growth in the Music division. To date, an estimated 62% of teenagers are downloading music despite the relative complexity of the existing format. Management believes that should an AOL user-friendly format be implemented, demand for music download can accelerate and ultimately be the next growth driver for the to-be-combined Time Warner and EMI's music business.

-- FIRST CALL --